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NO. 82-1084

IN THE

Supreme Court of the United States

OCTOBER TERM, 1982

ASSOCIATION OF CO-OPERATIVE MEMBERS, INC. and ELMER GIBSON,
Petitioners,

v.

FARMLAND INDUSTRIES, INC.,
Respondent.

On Petition For Writ Of Certiorari To The United States Court Of Appeals For The Fifth Circuit

RESPONDENT'S BRIEF IN OPPOSITION

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QUESTION PRESENTED

1. Whether the licensee-estoppel doctrine prevents Farmland Industries, Inc. from acquiring common law trademark rights to a composite trademark, an element of which it uses by agreement with a third party, where such third party expressly recognizes the common law trademark rights of Farmland Industries, Inc. in and to the composite trademark.

TABLE OF CONTENTS

	Page
QUESTION PRESENTED	1
TABLE OF CONTENTS	II
INDEX OF AUTHORITIES	III
JURISDICTION	1
STATEMENT OF THE CASE	2
REASONS FOR DENYING THE WRIT	4
SUMMARY OF THE ARGUMENT	4
I. The Writ should be denied because the Fifth Circuit decision was based on state law as applied to a unique set of circumstances which are unlikely to reoccur.	5
II. The writ should be denied because the Court of Appeals properly applied the law of Texas and held that the licensee-estoppel doctrine does not prevent Farmland from acquiring common law trademark rights in and to its Double Circle trademark.	7
A. The licensee-estoppel doctrine does not apply where the licensee is not claiming any rights adverse to the licensor.	7
B. Farmland has common law trademark rights in its composite trademark even though it does not have the exclusive right to a component of the trademark.	8
C. Policy underlying trademark law supports the decision of the Court of Appeals.	10
CONCLUSION	14
CERTIFICATE OF SERVICE	15

INDEX OF AUTHORITIES

CASES	Page
Application of Miller International Co., 312 F.2d 819 (C.C. P.A. 1963)	8
Blue Bell Inc. v. Farah Manufacturing Company, Inc., 508 F.2d 1260 (5th Cir. 1975)	10, 11
In re Colonial Stores, Inc., 394 F.2d 549 (C.C.P.A. 1968)	8
Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema Ltd., 604 F.2d 200 (2d Cir. 1979)	11
Estate of Beckwith v. Commissioner of Patents, 252 U.S. 538 (1920)	8
In re Franklin Press, Inc., 597 F.2d 270 (C.C.P.A. 1979)	8, 9
Inwood Laboratories, Inc. v. Ives Laboratories, Inc., 102 S.Ct. 2182 (1982)	11
Q-Tips, Inc. v. Johnson & Johnson, 206 F.2d (3rd Cir. 1953)	8
Turner v. HMH Publishing Company, 380 F.2d 224 (5th Cir.), *cert. denied* (1967)	10
United Drug Co. v. Theodore Petanus Co., 248 U.S. 90 (1918)	10
World Carpets, Inc. v. Dick Littrell's New World Carpets, 438 F.2d 482 (5th Cir. 1971)	12

STATUTES	
15 U.S.C. § 1051	11
15 U.S.C. § 1055	10
15 U.S.C. § 1127	10
28 U.S.C. § 1254(1)	1
28 U.S.C. § 1292(a)(1)	2

MISCELLANEOUS	
J. McCarthy, *Trademarks and Unfair Competition*, Vol. 1, § 12:12 (1973)	8
S. Rep. No. 1333, 79th Cong. 2d Sess. (1946), U.S. Code Cong. Service, p. 1274 (1946)	11

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RESPONDENT'S BRIEF IN OPPOSITION

Comes Now Respondent Farmland Industries, Inc., and respectfully requests that this Court deny the petition for writ of certiorari.

JURISDICTION

Petitioners' assertion is correct that the Court has jurisdiction under 28 U.S.C. § 1254(1) over the judgment

entered by the United States Court of Appeals for the Fifth Circuit.

STATEMENT OF THE CASE

This is a trademark case in which the District Court for the Western District of Texas, San Antonio Division, granted a partial summary judgment that Respondent Farmland Industries, Inc. ("Farmland") has a common law trademark right in and to the trademark set out below, known as the "Double Circle" trademark.



The District Court also found that the use of Petitioners Association of Co-Operative Members, Inc. ("Association"), and Elmer Gibson ("Gibson") of the marks set out below infringed upon Farmland's trademark. The Court of Appeals for the Fifth Circuit affirmed both of these holdings.[1]

1. The District Court also held that Petitioners had willfully and intentionally infringed upon Farmland's trademark. The Fifth Circuit dismissed Petitioners' appeal of this ruling, holding that the determination of intent was unnecessary to the injunction granted by the District Court, and therefore an appeal of that point was not properly before the Fifth Circuit under 28 U.S.C. § 1292(a)(1).









The material facts in this case are not in dispute.[2] They are set out in detail in the opinion of the Fifth Circuit. *See* Appendix A at pp. A-13-17 to Petition for Writ of Certiorari. In short, Petitioners do not deny that Farmland's appropriation and use of its trademark, standing alone, are sufficient to establish ownership of a common law trademark. Nor do Petitioners deny that their logos are likely to be confused with Farmland's, and would be an infringement if Farmland owned the Double Circle trademark. Petitioners' position throughout is that because Farmland uses the word "COOP" by agreement with Universal Cooperatives, Inc. ("Universal"), it may not

2. Farmland submitted seventeen affidavits and excerpts from depositions of Gibson and officers of the Association which support all of the facts set out herein and in the opinion of the Fifth Circuit. None of these facts have ever been disputed by Gibson or the Association.

acquire common law rights in its composite Double Circle trademark.

Universal has numerous trademark registrations for the word "CO-OP." It has never registered or attempted to register the Double Circle trademark as its own. By agreement, Universal permits Farmland to use the word "COOP" in Farmland's composite Double Circle trademark. Universal expressly recognizes Farmland's common law trademark right in the Double Circle trademark, and makes no claim to Farmland's Double Circle trademark. *See* Appendix "D" at p. A-39 to Petition for Writ of Certiorari.

REASONS FOR DENYING THE WRIT

SUMMARY OF THE ARGUMENT

The pivotal question in this case is who owns the Double Circle trademark. Petitioners contend Universal, not Farmland, owns the Double Circle trademark, although Petitioners concede that Farmland has satisfied all common law requirements to ownership of the Double Circle and Universal has never used the Double Circle trademark. Significantly, Universal itself denies that it owns the Double Circle trademark, and expressly recognizes Farmland's common law trademark rights to the mark. Faced with these facts, the Court of Appeals correctly ruled that Farmland owns the Double Circle, and affirmed this finding of the District Court.

Petitioners argue that because Farmland does not have the exclusive right to use a component of its composite trademark, it cannot own the composite trademark. This argument is without merit, because it is well established

that one may have trademark rights in a composite trademark even though one may not have a recognizable trademark right to a component of the composite trademark.

The licensee-estoppel doctrine, relied upon by Petitioners, is inapplicable to this case. It only applies to the situation where a licensee is challenging the licensor's rights to the licensed trademark. The trademark in question here, the Double Circle, is not the subject of a license agreement, and both the alleged licensee, Farmland, and the alleged licensor, Universal, agree that Farmland owns the Double Circle.

Ownership of the Double Circle trademark is determined by usage. Farmland is the only party that has used the Double Circle (until Petitioners' infringement). It has spent millions of dollars successfully establishing secondary meaning in the trademark. Farmland, as well as the general public, is entitled to the protection afforded it by the courts below. The decision of the Court of Appeals should be affirmed.

I. The Writ should be denied because the Fifth Circuit decision was based on state law as applied to a unique set of circumstances which are unlikely to reoccur.

This is a diversity case in which the issue presented is governed by Texas law. The Fifth Circuit found no Texas precedent on the question, and applied general trademark principles to the unique facts before it. As a pronouncement of Texas law applied to a unique situation, the Fifth Circuit opinion will affect relatively few litigants, and the writ should be denied.

The circumstances are unusual. None of the issues generally found in a trademark case arise here. Farmland's exclusive use and appropriation of the Double Circle trademark for twenty-five years is undisputed. In the last decade alone, Farmland has spent over $45 million in advertising associated with its Double Circle trademark. In so doing, it has created secondary meaning in the market, and people associate the Double Circle trademark exclusively with Farmland, to the degree that Farmland's member cooperatives are known as the "Double Circle Co-ops." Petitioners' infringement is undisputed as well. Their use of a logo which, by their own admission, is "virtually identical" (Deposition of Deborah Gibson, President of the Association and Gibson's wife), not only creates a likelihood of confusion, but actually has caused confusion. In fact, Petitioners never even denied that the infringement was intentional until their reply brief before the Fifth Circuit. Instead, Petitioners have based their entire defense on the licensee-estoppel doctrine, which provides that a licensee may not set up an adverse claim to a trademark as against its licensor. Yet, in the case at bar, Farmland has set up no claim adverse to the licensor, Universal, and Universal recognizes that Farmland owns the Double Circle trademark.

Consequently, the Court is faced with a highly unlikely situation where all the parties agree that (1) Farmland has met all the requirements for acquiring a common law trademark and (2) infringement exists. Petitioners argue, however, that Farmland is not entitled to relief, because Universal, not Farmland, owns the Double Circle trademark. *See* Petition for Writ of Certiorari at p. 6. Yet Universal has unequivocally stated that it does *not* own the Double Circle trademark, Farmland owns it. This type

of controversy (or lack thereof) is unlikely to reoccur, and does not warrant an exercise of this Court's jurisdiction.

II. The writ should be denied because the Court of Appeals properly applied the law of Texas and held that the licensee-estoppel doctrine does not prevent Farmland from acquiring common law trademark rights in and to its Double Circle trademark.

A. The licensee-estoppel doctrine does not apply where the licensee is not claiming any rights adverse to the licensor.

Under the licensee-estoppel doctrine, a licensee is precluded from challenging the validity of the licensed mark or its ownership by the licensor. Petitioners' reliance on this doctrine evidences their misconception of what is at issue in this case. Universal, through its Bylaws, permits Farmland to use Universal's registered trademark, the word "CO-OP." Farmland does not challenge the validity of this mark or Universal's ownership of it. Use of the word "CO-OP" standing alone, is not the issue in this case, and there is no dispute between Farmland, the alleged licensee, and Universal, the alleged licensor. Consequently, the licensee-estoppel doctrine does not apply.

The issue in this case is whether Farmland has the exclusive right to use its Double Circle trademark. Universal, by its own unequivocal admission, uncontroverted below, admits that it claims no rights to Farmland's Double Circle trademark. In fact, Universal recognizes Farmland's common law right to its Double Circle trade-

mark. The Double Circle trademark is not the subject of any license agreement between Farmland and Universal. Therefore, the licensee-estoppel doctrine is simply irrelevant to this case.

B. Farmland has common law trademark rights in its composite trademark even though it does not have the exclusive right to a component of the trademark.

In essence, Petitioners contend that Farmland cannot have the exclusive right to its Double Circle trademark because it does not have the exclusive right to an element of the composite, the word "COOP." The Court of Appeals properly rejected this contention.

A trademark must be considered in its entirety, and not by analysis of the various components of a trademark. *Estate of Beckwith v. Commissioner of Patents*, 252 U.S. 538 (1920). One may own a composite trademark without having the exclusive right, or any recognizable trademark right, in an element of the composite trademark. For example, generally one may not acquire trademark rights to a generic or common term, yet one may acquire trademark rights to a composite mark an element of which is a generic term. *E.g., In re Colonial Stores, Inc.*, 394 F.2d 549 (C.C.P.A. 1968); *Application of Miller International Co.*, 312 F.2d 819 (C.C.P.A. 1963); *Q-Tips, Inc. v. Johnson & Johnson*, 206 F.2d (3rd Cir. 1953); J. McCarthy, *Trademarks and Unfair Competition*, Vol. 1, § 12:12 (1973). The same is true where one of the components actually belongs to another party. *In re Franklin Press, Inc.*, 597 F.2d 270 (C.C.P.A. 1979).

Thus, Farmland has trademark rights in its composite mark even though it has no exclusive right to an element of the mark. This is consistent with the practice of disclaiming rights to portions of a composite mark in filings with the Patent and Trademark office. *Id.*

Petitioners suggest that the word "COOP" is the dominant element of the Double Circle trademark, and therefore ownership of the entire mark merges into Universal's ownership of the word "CO-OP." Petitioners are wrong for several reasons.

First, Petitioners offered no evidence in support of this proposition and in fact did not even raise this issue until their Motion for Rehearing in the Court of Appeals.

Second, Petitioners are not in a position to contend that Universal, not Farmland, owns the Double Circle. *Cf. Application of Franklin Press, Inc., supra.* (Patent and Trademark Office cannot require deletion of third party mark from composite where third party does not object to its inclusion.) That is a matter between Universal and Farmland, about which there is no controversy. Universal's stated position is that Farmland, not Universal, owns the Double Circle trademark.

Third, the undisputed evidence demonstrates that the double circle design is the dominant element of the mark. Farmland's members are known as the "Double Circle CO-OPS," and even a cursory review of the advertising materials submitted to the District Court would indicate the prominence of the double circle design to the trademark. The Court of Appeals carefully considered this issue and correctly decided that Farmland's use of the

word "COOP" by agreement with Universal does not prevent Farmland from acquiring a common law trademark in the Double Circle.

C. Policy underlying trademark law supports the decision of the Court of Appeals.

A fundamental principle of trademark law is that trademark rights are created by use. *United Drug Co. v. Theodore Petanus Co.*, 248 U.S. 90 (1918); *Blue Bell Inc. v. Farah Manufacturing Company, Inc.*, 508 F.2d 1260 (5th Cir. 1975). Farmland is the only entity that has used the Double Circle trademark; Universal never has. Therefore, while Universal may have trademark rights in the word "COOP," it has no trademark rights in the Double Circle, as it freely admits.

Petitioners argue that Farmland's use of the word "COOP" inures to the benefit of Universal, and therefore Universal owns the Double Circle trademark. This non sequitur will not withstand close scrutiny. As the Court of Appeals noted, the Double Circle trademark is not the subject of any license agreement and Universal makes no claim to it. Consequently, the line of authority which holds that a licensee's use of a licensed registered trademark may strengthen the licensor's claim to the licensed trademark is inapposite. In any event, that line of authority is limited to certain circumstances where, for example, the licensee is a "related" company, 15 U.S.C. §§ 1055, 1127, and the licensor exercises sufficient control over the licensee. *Turner v. HMH Publishing Company*, 380 F.2d 224 (5th Cir.) *cert. denied* (1967). Petitioners offered no evidence on either of these points

below.[3] Moreover, Petitioners' position would be an unwarranted extension of this doctrine. A licensor's use of a licensed trademark cannot *create* rights for the licensor in a different trademark which the licensor has never used, licensed or claimed, or, as in this case, in which the licensor affirmatively disclaims any interest.

This result is entirely consistent with the purposes underlying trademark law. Trademark law is designed to protect two separate interests, that of the owner of the trademark and that of the consuming public. *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 102 S.Ct. 2182 (1982). The owner of the trademark is entitled to protection of its investment in its trademark and of the valuable goodwill associated with its trademark. *Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema Ltd.*, 604 F.2d 200 (2d Cir. 1979). As the Senate report to the Lanham Act, 15 U.S.C. § 1051 *et seq.*, states, the owner should be "protected in his investment from its misappropriation by pirates and cheats." S. Rep. No. 1333, 79th Cong. 2d Sess. (1946), U.S. Code Cong. Service, p. 1274 (1946). On the other hand, the consuming public has the right to rely on known trademarks, so that when it sees the trademark it can purchase the product or service confident that it comes from the true source. *Id.; Blue Bell, Inc. v. Farah Manufacturing Company, Inc., supra.*

Both of these interests flow from usage. The owner of a trademark invests, in many cases, millions of dollars in a trademark through usage such as advertising, packaging

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3. In fact, Petitioner offered no evidence below other than copies of several incomplete files of the United States Patent and Trademark Office. *See* Opinion below, Appendix A at A-24, n.5 to Petition for Writ of Certiorari.

and in every other aspect of the marketing of a product. The public acquires a right to rely on a trademark through years of association of the trademark with the particular good or service. Thus, it is consistent with the interests to be protected by trademarks that the right to protection be based on usage.

Finally, there is a third interest served by the protection of trademarks—commercial morality. One business simply should not be able to reap the benefits of another's efforts in creating secondary meaning for a trademark. *E.g.*, *World Carpets Inc. v. Dick Littrell's New World Carpets*, 438 F.2d 482 (5th Cir. 1971).

All of these policies support the Court of Appeals' decision that Farmland owns the Double Circle trademark even though it has the right to use an element thereof by agreement with Universal. Farmland has used the trademark exclusively over the past 25 years, and in the last decade alone has spent over $45 million associated with the trademark. These efforts have created enormous consumer awareness. Petitioners have attempted to capitalize on Farmland's efforts, and their use of an infringing logo has already tricked several consumers. Farmland's enormous investment should be protected, as should the public's right to rely on the trusted Farmland Double Circle. Moreover, in the interests of commercial morality, Petitioners should not be permitted knowingly to palm off their services as Farmland's and thereby take advantage of Farmland's goodwill unfairly.

Yet, a holding that Farmland cannot stop these abuses would leave the interests which trademark law is designed to protect absolutely defenseless. No other entity could step forward and claim an exclusive right to the trade-

mark. Petitioners claim Universal owns the Double Circle, yet Universal itself disagrees, and in fact has never used the trademark or licensed its use. Having never claimed, used or licensed the trademark, Universal would be unable to prevail in any case it might bring to protect the Double Circle. In addition, it would be unable to show either secondary meaning or a likelihood of confusion. As a practical matter, it would not have any incentive to protect the Double Circle because Universal does not have any investment in it and, without confusion, Universal is unlikely to be harmed by another party's use of the trademark.

Therefore, a holding that Farmland, or any other user of a composite trademark in the same situation as Farmland, cannot protect its trademark would have a calamitous effect. In this case, it would permit the Petitioners to prey on unsuspecting members of the public who are accustomed to relying on the Farmland Double Circle, with resulting damage to both Farmland and the general public. Under Petitioners' view of the law, only Universal could protect the trademark, yet Universal itself disclaims any right to the trademark.

Such an illogical result cannot prevail, and runs completely counter to the principles and purposes of trademark law. Farmland is the sole user of the Double Circle. The Double Circle, as a composite trademark, is not the subject of any agreement with a third party. Through Farmland's efforts, the public associates the Double Circle exclusively with Farmland. Consequently, Farmland owns the Double Circle, and Farmland has the right to protect the Double Circle and the public from Petitioners' admitted infringement.

The Court of Appeals correctly applied general trademark principles in this diversity case. It reached a reasoned decision consistent with the purposes of trademark law, a decision which affords protection to those interests trademark law is designed to protect. Review of this decision is unnecessary.

CONCLUSION

For all of the reasons stated above, Respondent Farmland Industries, Inc. respectfully requests this Court to deny Petitioners' petition for certiorari.

Dated February 18, 1983.

Respectfully submitted,

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PROOF OF SERVICE

I, Patton G. Lochridge, a member of the Bar of this Court, do hereby certify that three true and correct copies of the above and foregoing Respondent Farmland Industries, Inc.'s Brief in Opposition have been served on each party separately represented in this proceeding by depositing the same in a United States post office with first-class postage prepaid, certified, return receipt requested, on this 18th day of February, 1983, addressed as follows:

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